VERTEX MANAGED VALUE PORTFOLIO

Year End Report, 2007

One has to go back to 1990 to find lower valuations for Disney (P/E 13.8X), Ingersoll Rand (P/E 11X) and Mattel (P/E 11.5X). One has to go back to 1987 to find lower valuations for Pfizer (P/E 11X) and J&J (P/E 16.5X). One has to go back a decade to find a time when valuations of Property and Casualty Insurance Companies have been this attractive. Our companies have no “sub-prime” exposure, virtually no debt and trade at or below book value with PE ratios of 6X to 9X. These are our major holdings. Unfortunately the data on my Bloomberg doesn’t go back far enough to find when we have last seen such high valuations for Canadian banks (price to book 2.5X to 3X) and commodity firms. It is sufficient to say that it predates my career in the investment business. One has to go back half a millennium to find a time when the US dollar was as low as it is today with respect to Canadian dollars. One has to go back……to the dawn of the age of oil to find higher oil prices - 1869 is the earliest date I could find and yes, that is inflation adjusted. Material commodities reflect the same exuberance as oil. It is with this backdrop that we conclude 2007 (a most rotten year for your fund) and begin 2008, a hopeful year for your fund.

I’m sure if you’ve read our past letters and see how your fund is positioned from the paragraph above, it’s clear that I expect a trading of places at some point. This point though, eludes me. Once the price of an asset de-links from its fundamentals, whether it is price to value with regard to stocks (tech stocks last decade) or in the case of commodities, supply/demand balances, then all bets are off as to where prices are headed. In the case of oil at $100 and gold close to $900, there is really no telling just how high they can go. I’m resigned commodities could triple from here as commodity prices de-linked from supply/demand curves years ago. The new, new, new reason (after China, after India, after “Peak Oil”) for commodities rising has nothing to do with supply/ demand imbalances between producers and users. The newest of new reasons - “investment demand” - is driving prices higher and higher as a hedge against inflation and a weak USD. The most comedic part of this is…….the “worried about inflation” is largely a result of…….rising commodity prices. The higher they go the more inflation, the more commodities are bought leading to higher inflation leading to more buying to hedge more inflation. Wow! Did the chicken or the egg come first? By the time it’s all over, there will be a new chapter for Charles MacKay’s “Extraordinary Popular Delusions and the Madness of Crowds”. Remember “investment demand” for tulips?

Our investment style has never been to pick trading points. Our process involves finding value then looking out five years to assess how our companies will perform over that interval. Over short periods there are massive distortions in price per share vs. value per share. A classic case in point is Mattel which is down 22% in a year and is flat over a five year period, despite a return on invested capital over 20%, a return on equity over 20%, a dividend growth rate of 71%, share buy backs of $1.5 billion dollars and an additional $500 million announced. When we first purchased Mattel shares, the company had $1.4 billion in debt now there is $900 million. The company has a dividend yield of 4.25%, roughly the equivalent of government bond yields. Let's contrast this with CNQ, a Canadian energy company. CNQ is an excellent company – there's no argument. Last year the stock was up 17%. Over five years it's up 600%. Shares outstanding are the same so net net share buybacks and issues have been equal. Debt has gone from $4 billion to $10.6 billion, thus debt burden has significantly increased. Return on equity and return on invested capital are about equal to Mattel's with the slightly better number being Mattel's. Dividend growth rate is 22% with a yield of .47% which is roughly 1/9th that of Mattel's. Mattel's results are despite the trouble they've had with Barbie and various other issues. CNQ's numbers include the best underlying conditions for its business ever. If Mattel simply changed its name to Mattel Oil, it's stock trajectory would look vastly different.

One only needs to observe a comparison of IPSCO and Nortel over the last 10 years to know how values change with time. IPSCO Inc., a steel company, fell from $40 to $11 in the late nineties while Nortel went from $20 to $123 - a six fold increase. In the short run IPSCO shareholders looked pretty dumb. Subsequently IPSCO was taken over for $160 and today Nortel trades at $1.20 factoring for consolidation. This is how markets work in the long run. As it is often said, investing is a marathon not a sprint. This trading of places was repeated countless times in the last ten years.

Commodities and our related currency and energy/material companies have had a tremendous run these last seven years. With a crystal ball, all our investments would have been in technology until 2000 then quickly moved to commodities and then…….well, it's hard to predict the next bubble. When the bubble bursts however, a trading of places will occur. The when is only in question. Although last year proved to be our worst ever, I remain confident we have the right investments, not for the last five years (everyone's loaded to the hilt with those already) but for the next five years which, if history teaches us anything, will be very different from our most recent experience.

PERFORMANCE

	Rate of Return (Class A)					
Net Asset Value	**3 Mos.**	**1 Yr.**	**2 Yrs.***	**3 Yrs.***	**5 Yrs.***	**Since Inception***
$12.4138**	**-2.28%**	**-14.24%**	**0.60%**	**2.11%**	**7.35%**	**8.10%**

*Annualized
**Post Distribution

Past performance is not indicative of future results
All data are based on the Class A unit values

THE PORTFOLIO

The holdings in the Vertex Managed Value Portfolio at December 31st, 2007 include:

Fairfax Financial Holdings	IPC Holdings Ltd.	Odyssey Re
Montpelier Re	Ingersoll-Rand Co.	Seamark Asset Mgmt.
Partner Re	Walt Disney Co.	Sceptre Asset Mgmt.
BCE Inc.	Mattel Inc.	QLT Inc.
Pfizer Inc.	Merck & Co.	
Johnson & Johnson	Manitoba Telecom	

ASSET MIX

Cash	0%	Canadian Equities	23%
Fixed Income		Foreign Equities	52%
Canadian	21%		
Foreign	4%		

Vertex One Asset Management